



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

OIL AND GAS DOCKET NO. 06-0290223

**THE APPLICATION OF BP AMERICA PRODUCTION COMPANY TO AMEND
FIELD RULES AND FOR EXCEPTION TO STATEWIDE RULE 28 FOR ALL WELLS,
HALLSVILLE, NE (COTTON VALLEY) FIELD, HARRISON COUNTY, TEXAS**

HEARD BY: Brian Fancher, P.G. – Technical Examiner
Michael Crnich – Legal Examiner

REVIEWED BY: Laura Miles-Valdez – Legal Examiner

HEARING DATE: August 11, 2014
RECORD CLOSED: November 3, 2014
SUBMISSION DATE: August 12, 2015
CONFERENCE DATE: August 25, 2015

APPEARANCES:

REPRESENTING:

APPLICANT:

Michael Choate
Keith Masters

BP America Production, Co.

EXAMINERS' REPORT AND RECOMMENDATION

STATEMENT OF THE CASE

BP America Production Co. ("BP") seeks the following: (1) amend field rules for the subject field to provide for 330' dual lease line spacing with 100' first and last take points; and (2) exception to 16 Tex. Admin. Code §3.28(b) ("Statewide Rule 28(b)"), which requires semi-annual G-10 deliverability tests for all gas wells in an associated or non-associated gas field after the respective gas well's initial G-10 deliverability test has been performed.

With regard to Statewide Rule 28, BP requests that the requisite G-10 deliverability tests be arrested while the Field's allocation formula is suspended (*i.e.*, Absolute Open Flow, or AOF status). Furthermore, if the Field's allocation formula is reinstated, then BP requests that the G-10 deliverability test requirement be annual as opposed to semi-annual.

The subject application is unprotested and the Examiners recommend that it be granted, as requested by BP.

DISCUSSION OF THE EVIDENCE

Mr. Keith Masters, a consulting engineer, testified on behalf of BP as an expert in petroleum engineering.

Field Rule Amendments

The subject field is governed by special field rules, which provide the following: (1) a designated correlative interval; (2) 330' lease line spacing and no between well spacing, a 50' box rule, offlease penetration points, NPZs, and 330' take points; (3) 40-acre density; (4) two-factor allocation; and (5) stacked lateral wells.¹

In the captioned docket, BP requests to amend the existing special field rules by adopting 330' dual lease line spacing, and 100' first and last take points for horizontal wells. Mr. Masters testified that incorporating 330' dual lease line spacing for horizontal wells will provide greater flexibility to operators in the subject field. Furthermore, he testified that granting BP the requested relief will prevent waste and protect correlative rights. Mr. Masters submitted examples of several other fields in Texas that incorporate 330' lease line spacing with 100' first and last take points.²

Exception to Statewide Rule 28 ("SWR 28")

Titled "Potential and Deliverability of Gas Wells To Be Ascertained and Reported," SWR 28 generally states that certain information must be submitted to determine the absolute daily open flow potential (*i.e.*, deliverability) of each producing gas well (associated and nonassociated) after initial completion. After a gas well's initial deliverability test has been conducted, the well is required to follow a particular G-10 testing schedule. However, certain exceptions are available. For instance, SWR 28(c) states:

Unless applicable special field rules provide otherwise or the director of the oil and gas division or the director's delegate authorizes an alternate procedure due to a well's producing characteristics, deliverability shall be performed as follows.

[...]

Exceptions and extensions to the timing requirements for deliverability tests and shut-in wellhead pressure tests may be granted by the Commission for *good cause* (emphasis added).

¹ See O&G Final Order 06-0288414 – Final Order Adopting Field Rules for the Hallsville, NE (Cotton Valley) Field, effective June 17, 2014.

² BP Exh. No. 21.

BP requests suspension of the G-10 deliverability testing requirement for all gas wells while the Hallsville, NE (Cotton Valley) Field ("Field") remains classified as AOF status. Furthermore, if the Field's allocation formula is reinstated (*i.e.*, rescension of the AOF status), then the Field's deliverability testing schedule is lessened from semi-annual to annual.

Generally, an allocation formula is designed to prevent waste and protect correlative rights by fairly distributing the available market for production from the reservoir.¹ The Field is classified as non-associated and the allocation formula is suspended. That is, the Commission has determined at a prior date that there is a 100% market demand for all gas produced from the Field.

BP submitted an excerpt of the Commission's publication titled, "Permitting & Production Services Filing Procedures Manual" (the "Manual"). Mr. Masters testified that the Manual provides guidance on how the Commission determines a gas well's capability (*i.e.*, deliverability), which is done by taking the less of either the well's most recent G-10 deliverability test or its highest production with the last 3 month period. Mr. Masters testified that when a Commission-designated field, such as the Field, is classified as AOF status the G-10 deliverability test is unnecessary because each gas well is essentially producing its deliverability each month. In other words, if a field is designated as AOF status, then the G-10 deliverability test is not needed because it is assumed that each gas well is producing its full capacity of gas each month (*i.e.* its deliverability).

BP requests that the G-10 testing schedule for gas wells in the Field be changed from semi-annual to annual upon reinstatement of the allocation formula. Again, this is a moot issue because Statewide Rule 28(b) only requires annual G-10 testing for associated gas wells producing at a gas to oil ration consistent with the requirements of Statewide Rule 49(b).² Beyond that, BP submitted copies of prior Commission Final Orders in similar fields where exception to the semi-annual requirement has been granted.³

FINDINGS OF FACT

1. BP Production Company ("BP") seeks to amend the existing special field rules and for exception to Statewide Rule 28 [16 Tex. Admin. Code §3.28(b)] for all wells in the Hallsville, NE (Cotton Valley) Field, Harrison County, Texas ("Field") (collectively "Subject Application").
2. All operators in the Field were provided notice of the Subject Application.
3. The Subject Application is unopposed.
4. BP requests to incorporate 330' dual lease line spacing and 100' first and last take points in the special field rules governing the Field.

¹ Commission's *Discussions of Law, Practice, and Procedure*, Part I, Subsection F.

² 16 Tex. Admin. Code §3.28(b).

³ Oil & Gas Final Order 06-0281776.

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**OIL AND GAS DOCKET
NO. 06-0290223**

**IN HALLSVILLE, NE (COTTON VALLEY)
FIELD, HARRISON COUNTY, TEXAS**

**FINAL ORDER
APPLICATION OF BP AMERICA PROD. CO.
TO AMEND FIELD RULES AND
FOR EXCEPTION TO STATEWIDE RULE 28
SEMI-ANNUAL G-10 TESTS
HALLSVILLE, NE (COTTON VALLEY) FIELD
HARRISON COUNTY, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on August 21, 2014, the presiding examiners have made and filed a report and recommendation containing findings of fact and conclusions of law, for which service was not required; that the proposed application is in compliance with all statutory requirements; and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the examiners' report and recommendation, the findings of fact and conclusions of law contained therein, hereby adopts as its own the findings of fact and conclusions of law contained therein, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is **ORDERED** by the Railroad Commission of Texas that Field Rule No. 2 of the Field Rules adopted in Final Order No. 01-0255374, effective May 29, 2008, for the Hodde (Wales Sand) Field, McMullen County, Texas, is hereby amended. The amended field Rule No. 2 is set out below:

RULE 2: No well for gas shall hereafter be drilled nearer than THREE HUNDRED THIRTY (330) feet to any property line, lease line, or subdivision line. There is no between well spacing limitation. The aforementioned distances in the above rule are minimum distances to allow an operator flexibility in locating a well, and the above spacing rule and the other rules to follow are for the purpose of permitting only one well to each drilling and proration unit. Provided however, that the Commission will grant exceptions to permit drilling within shorter distances and drilling more wells than herein prescribed whenever the Commission shall have determined that such exceptions are necessary either to prevent waste or to prevent the confiscation of property. When exception to these rules is desired, application therefor shall be filed and will be acted upon in accordance with the provisions of Commission Statewide Rules 37 and 38, which applicable provisions of said rules are incorporated herein by reference.

In applying this rule, the general order of the Commission with relation to the subdivision of property shall be observed.

Provided, however, that for purposes of spacing for horizontal wells, the following shall apply:

- a. A take point in a horizontal drainhole well is any point along a horizontal drainhole where oil and/or gas can be produced into the wellbore from the reservoir/field interval. The first take point may be at a different location than the penetration point and the last take point may be at a location different than the terminus point.
- b. No horizontal drainhole well for oil or gas shall hereafter be drilled such that the first and last take points are nearer than ONE HUNDRED (100) feet to any property line, lease line or subdivision line.
- c. For each horizontal drainhole well, the distance perpendicular to such horizontal drainhole from any take point to any point on any property line, lease line or subdivision line shall be a minimum of THREE HUNDRED THIRTY (330) feet.

A properly permitted horizontal drainhole will be considered to be in compliance with the spacing rules set forth herein if the as-drilled location falls within a rectangle established as follows:

- a. Two sides of the rectangle are parallel to the permitted drainhole and 50 feet on either side of the drainhole;
- b. The other two sides of the rectangle are perpendicular to the sides described in (a) above, with one of those sides passing through the first take point and the other side passing through the last take point.

Any point of a horizontal drainhole outside of the described rectangle must conform to the permitted distance of the nearest property line, lease line or subdivision line measured perpendicular from the wellbore.

In addition to the penetration point and the terminus of the wellbore required to be identified on the drilling permit application (Form W-1H) and plat, the first and last take points must also be identified on the drilling permit application (remarks section) and plat. Operators shall file an as-drilled plat showing the path, penetration point, terminus and the first and last take points of all drainholes in horizontal wells, regardless of allocation formula.

If the applicant has represented in the drilling application that there will be one or more no perf zones or ""NPZ"s"" (portions of the wellbore within the field interval without take points), then the as-drilled plat filed after completion of the well shall be certified by a person with knowledge of the facts pertinent to the application that the plat is accurately drawn to scale and correctly reflects all pertinent and required data. In addition to the standard required data, the certified plat shall include the as-drilled track of the wellbore, the location of each take point on the wellbore, the boundaries of any wholly or partially unleased tracts within a Rule 37 distance of the wellbore, and notations of the shortest distance from each wholly or partially unleased tract within a Rule 37 distance of the wellbore to the nearest take point on the wellbore.

For any well permitted in this field, the penetration point need not be located on the same lease, pooled unit or unitized tract on which the well is permitted and may be located on an Offsite Tract. When the penetration point is located on such Offsite Tract, the applicant for such a drilling permit must give 21 days notice by certified mail, return receipt requested to the mineral owners of the Offsite Tract. For the purposes of this rule, the mineral owners of the Offsite Tract are (1) the designated operator; (2) all lessees of record for the Offsite Tract where there is no designated operator; and (3) all owners of unleased mineral interests where there is no designated operator or lessee. In providing such notice, applicant must provide the mineral owners of the Offsite Tract with a plat clearly depicting the projected path of the entire wellbore. In the event the applicant is unable, after due diligence, to locate the whereabouts of any person to whom notice is required by this rule, the applicant must publish notice of this application pursuant to the Commission's Rules of Practice and Procedure. If any mineral owner of the Offsite Tract objects to the location of the penetration point, the applicant may request a hearing to demonstrate the necessity of the location of the penetration point of the well to prevent waste or to protect correlative rights. Notice of Offsite Tract penetration is not required if (a) written waivers of objection are received from all mineral owners of the Offsite Tract; or, (b) the applicant is the only mineral owner of the Offsite Tract. To mitigate the potential for well collisions, applicant shall promptly provide copies of any directional surveys to the parties entitled to notice under this section, upon request.

For the purpose of assigning additional acreage to a horizontal well pursuant to Rule 86, the distance from the first take point to the last take point in the horizontal drainhole shall be used in such determination, in lieu of the distance from penetration point to terminus.

It is further **ORDERED** by the Railroad Commission of Texas that the application of BP America Production. Co., for exception to Statewide Rule 28 requiring semi-annual G-10 well tests, is hereby **GRANTED** for all gas wells in the HALLSVILLE, NE (Cotton Valley) Field. No G-10 deliverability test shall be required in the HALLSVILLE, NE (Cotton Valley) Field while the allocation formula is suspended. Upon reinstatement of the allocation formula, the G-10 deliverability testing for the HALLSVILLE, NE (Cotton Valley) Field shall be performed annually from October to December.

All other requirements of Statewide Rule 28 shall remain in effect.

Done this 25th day of August, 2015.

RAILROAD COMMISSION OF TEXAS

**(Order approved and signatures affixed by
Hearings Divisions' Unprotected Master
Order dated August, 2015)**

5. Adopting 330' dual lease line spacing and 100' first and last take points in the Field will prevent waste and protect correlative rights.
6. BP requests that the requirements to perform G-10 deliverability tests on gas wells in the Field be removed while the Field's allocation formula is in suspension.
7. The Field is currently classified as Absolute Open Flow status, and the Field's allocation formula is in suspension.
8. Requiring G-10 deliverability tests is not necessary while the Field's allocation formula is in suspension.
9. Statewide Rule 28 provides a annual G-10 deliverability schedule for gas wells completed in a non-associated reservoir governed by Statewide Rule 49(a).
10. Approval of the application is reasonable and appropriate, pursuant to Statewide Rule 28(b).

CONCLUSIONS OF LAW

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas – Tex. Nat. Res. Code §81.051.
2. Legally sufficient notice has been provided to all affected persons.
3. Exception for the Hallsville, NE (Cotton Valley) Field, pursuant to Statewide Rule 28(b) [16 Tex. Admin. Code §3.28(b)], and amendment of the special field rules will prevent waste and protect correlative rights.

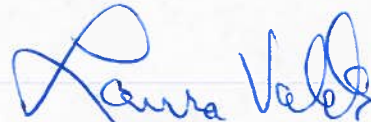
EXAMINERS' RECOMMENDATION

Based on the above findings of fact and conclusions of law, the Examiners recommend that the special field rules for the Field be amended, as requested by BP, and that the G-10 deliverability testing requirement be arrested while the Field's allocation formula is in suspension. If the allocation formula is reinstated, then the Field's G-10 deliverability testing schedule should be conducted annually.

Respectfully submitted,



Brian Fancher, P.G.
Technical Examiner



Laura Miles-Valdez
Legal Examiner